

NEW SECTION

WAC 458-20-19402 Single factor receipts apportionment – Generally.

Part 1. Introduction.

101. **General.** RCW 82.04.462 establishes the apportionment method for businesses engaged in apportionable activities and that have nexus with Washington for business and occupation (B&O) tax liability incurred after May 31, 2010. The express purpose of the change in the law was to require businesses “earn[ing] significant income from Washington residents from providing services” to “pay their fair share of the cost of services that this state renders and the infrastructure it provides.” Section 101, chapter 23, 1st special session, 2010.

102. **This rule is divided into six parts.** Specifically, these are:

1. Introduction
2. Overview of single factor receipts apportionment.
3. How to attribute receipts
4. Receipts factor
5. How to determine Washington taxable income
6. Reporting instructions

103. **This rule does not apply:**

- (a) To the apportionment of income received by financial institutions and taxable under RCW 82.04.290, which is governed by WAC 458-20-19404, as well as, of royalty income from granting the right to use intangible property which is governed by WAC 458-20-19403; and
- (b) To income from any activity which is not an apportionable activity as defined in section 2(a) of WAC 458-20-19401.

104. **Separate accounting and cost apportionment.** The apportionment method explained in this rule replaces the previously allowed separate accounting and cost apportionment methods which are not authorized for periods after May 31, 2010.

105. **Taxpayers may also find helpful information in the following sections:**

- (a) WAC 458-20-19401 Minimum nexus thresholds for apportionable activities. This rule describes minimum nexus thresholds that are effective after May 31, 2010.
- (b) WAC 458-20-19403 Single factor receipts apportionment – Royalties. This rule describes the application of single factor receipts apportionment to gross income from royalties and applies only to tax liability incurred after May 31, 2010.
- (c) WAC 458-20-19404 Single factor receipts apportionment – Financial institutions. This rule describes the application of single factor receipts apportionment to certain income of financial institutions and applies only to tax liability incurred after May 31, 2010.
- (d) WAC 458-20-194 Doing business inside and outside the state. This rule describes separate accounting and cost apportionment and applies only to tax liability incurred from January 1, 2006 through May 31, 2010.
- (e) WAC 458-20-14601 Financial institutions – Income apportionment. This rule describes the apportionment of income for financial institutions for tax liability incurred prior to June 1, 2010.

106. **Examples.** Examples included in this rule identify a number of facts and then state a conclusion; they should be used only as a general guide. The tax results of all situations must be determined after a review of all the facts and circumstances. For the examples in this rule, gross income received by the taxpayer is from engaging in apportionable activities. Also, unless otherwise stated the examples do not apply to tax liability prior to June 1, 2010.

107. **Definitions.** The following definitions apply to this rule:

(a) "Apportionable activities" has the same meaning as used in WAC 458-20-19401 Minimum nexus thresholds for apportionable activities.

(b) "Apportionable income" means apportionable receipts, less the exemptions and deductions allowable under chapter 82.04 RCW.

(c) "Apportionable receipts" means gross income of the business generated from engaging in apportionable activities, including income received from apportionable activities attributed to locations outside this state.

(d) "Business activities tax" means a tax measured by the amount of, or economic results of, business activity conducted in a state. The term includes taxes measured in whole or in part on net income or gross income or receipts. In the case of sole proprietorships and pass-through entities, the term includes personal income taxes if the gross income from apportionable activities is included in the gross income subject to the personal income tax. The term "business activities tax" does not include a retail sales tax, use tax, or similar transaction tax, imposed on the sale or acquisition of goods or services, whether or not denominated a gross receipts tax or a tax imposed on the privilege of doing business.

(e) "Customer" means a person or entity to whom the taxpayer makes a sale or renders services or from whom the taxpayer otherwise directly or indirectly receives gross income of the business. If the service is purchased for the benefit of a third party, then the customer means the third party.

(f) "State" means a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any foreign country or political subdivision of a foreign country.

(g) "Taxable in another state" means either:

(i) The taxpayer is subject to a business activities tax by another state on its income received from engaging in apportionable activity; or

(ii) The taxpayer is not subject to a business activities tax by that state on its income received from engaging in apportionable activity, but the taxpayer meets the substantial nexus thresholds described in WAC 458-20-19401.

Part 2. Overview of single factor receipts apportionment.

201. **Single factor receipts apportionment generally:** Persons earning apportionable income subject to B&O tax and that are also taxable in another state must use the apportionment method provided in this rule to determine their taxable income for B&O tax purposes. Taxable income is determined by multiplying apportionable income from each apportionable activity by the receipts factor for that apportionable activity.

This formula expressed algebraically is:

$$\text{(Taxable income)} = \text{(Apportionable income)} \times \text{(Receipts factor)}$$

See Part 4 of this rule for a discussion of the receipts factor.

202. Tax year. The receipts factor applies to each tax year. A tax year is the calendar year, unless the taxpayer has specific permission from the Department to use another period. RCW 82.32.270. For the purposes of this rule, “tax year” and “calendar year” have the same meaning.

Part 3. How to attribute receipts.

301. Attribution of receipts generally. Receipts are attributed to states based on a cascading method or series of steps. However, the Department expects that most taxpayers will attribute apportionable receipts based on subsection (301)(a)(i) below. These steps are:

(a) Where the customer received the benefit of the taxpayer’s service. See subsection 302 for an explanation of the benefit of the service analysis and examples.

(i) If a taxpayer can reasonably determine the amount of apportionable receipts related to the benefit of the services received in a state, that amount of apportionable receipts is attributable to that state. This may be shown by application of a reasonable method of proportionally assigning the benefit among states. The result determines the receipts attributed to each state.

(ii) If a taxpayer is unable to separately determine the benefit of the services in specific states under (i), and as a result the customer received the benefit of the service in multiple states, the apportionable receipts of the business is attributed to the state in which the benefit of the service was primarily received. Primarily means in this case more than 50%.

(b) If the taxpayer is unable to attribute apportionable receipts under (a) of this subsection (301), apportionable receipts of the business must be attributed to the state from which the customer ordered the service.

(c) If the taxpayer is unable to attribute apportionable receipts (a) or (b) of this subsection (301), apportionable receipts must be attributed to the state to which the billing statements or invoices are sent to the customer by the taxpayer.

(d) If the taxpayer is unable to attribute apportionable receipts under (a), (b), or (c) of this subsection (301), apportionable receipts must be attributed to the state from which the customer sends payment to the taxpayer.

(e) If the taxpayer is unable to attribute apportionable receipts under (a), (b), (c), or (d) of this subsection (301), apportionable receipts must be attributed to the state where the customer is located as indicated by the customer's address: (i) Shown in the taxpayer's business records maintained in the regular course of business; or (ii) obtained during consummation of the sale or the negotiation of the contract for services, including any address of a customer's payment instrument when readily available to the taxpayer and no other address is available.

(f) If the taxpayer is unable to attribute apportionable receipts under (a), (b), (c), (d), or (e) of this subsection (301), apportionable receipts must be attributed to the commercial domicile of the taxpayer.

302. Benefit of the service explained: The first two steps used to attribute apportionable receipts to a state are based on where the taxpayer’s customer receives the benefit of the service. For the purposes of this Rule, if the customer is acquiring apportionable services for the benefit of a third party, the term “customer” shall mean the third party beneficiary.

Example 1. Assume a parent purchases apportionable services (e.g., medical or legal services) to be provided to their child. The child is the customer for the purpose of determining where the benefit is received.

- (a) **Generally.** A customer receives the benefit of a service in a state if:
- (i) The apportionable activity relates to real property located in that state;
 - (ii) The apportionable activity relates to tangible personal property located in that state; or
 - (iii) The apportionable activity does not relate to real or tangible personal property and:
 - (A) The service is provided to a person engaged in business in a state and the service relates to the person's business activities in that state; or
 - (B) The service is provided to a person not engaged in business or is unrelated to the person's business activities and:
 - (I) The service requires the person to be physically present in that state at the time the service is received;
 - (II) The activity is related to a specific location(s) in that state; or
 - (III) If (I) and (II) do not apply, the customer resides in that state.
- (b) **Services related to real property.** The benefit of such services will be attributed to the state where the real property is located. The following is a non-exclusive list of services that relate to real property:
- (i) Architectural,
 - (ii) Surveying,
 - (iii) Janitorial,
 - (iv) Security,
 - (v) Appraisals,
 - (vi) Services and interest related to loans secured by real property.
- (c) **Services related to tangible personal property.** The benefit of such services will be attributed to the state where the tangible personal property is located. In the case of mobile property, the place of principal use will be used. If tangible personal property is subject to state licensing (e.g., motor vehicle), the place of principal use is presumed to be the place where the property is licensed. If the apportionable activity relates to tangible personal property that will be created in the future, then the customer receives the benefit of the service where the tangible personal property is expected to be.
- The following is a non-exclusive list of services that relate to tangible personal property:
- (i) Designing specific/unique tangible personal property,
 - (ii) Appraisals,
 - (iii) Inspections of the tangible personal property,
 - (iv) Testing of the tangible personal property,
 - (v) Veterinary services,
 - (vi) Services, including interest, related to loans and financing leases under WAC 458-20-211 secured by tangible personal property.
- (d) **Services not related to real or tangible personal property and related to the customer's business.** The benefit of the taxpayer's service that relates to the customer's business activities is deemed received where the customer's related business activities occurred. The following is a non-exclusive list of these types of services.
- (i) Developing a business management plan,
 - (ii) Commission sales,
 - (iii) Debt collection services,
 - (iv) Legal and accounting services,
 - (v) Advertising services, and
 - (vi) Designing property that will be used generally or sold.

(e) Services not related to real or tangible personal property and provided to persons not engaged in business or unrelated to the person's business.

(i) If the services require the customer to be physically present, the benefit of the services is received where the customer is located at that time. The following is a non-exclusive list of these types of services.

- (A) Medical examinations,
- (B) Hospital stays, and
- (C) Massage services.

(ii) If the services relate to an activity to occur at a specific location(s), then the benefit of the service is received at that location(s). The following is a non-exclusive list of these types of services.

- (A) Theater presentations,
- (B) Weddings,
- (C) Receptions,
- (D) Parties,
- (E) State and local tax returns, and
- (F) Similar services that are location specific.

(iii) If subsections (i) and (ii) above do not apply, the benefit of the service will be deemed to be received at the residence of the customer or the beneficiary of the service. The following is a non-exclusive list of these types of services.

- (A) Drafting a will,
- (B) Completing federal tax returns,
- (C) Selling investments, and
- (D) Any services related to unsecured loans, including credit card related services. In the case of unsecured loans, the benefit of the service is received at the residence of the customer. The place of residence is presumed to be the billing address for the customer.

303. Examples of the application of the benefit of service analysis.

(a) Services related to real property:

Example 2. When an architect designs a building for a specific location, the architect's customer receives the benefit of that service at that location.

Example 3. A franchisee hires an architect to create a single design of a building that will be used in four locations in Washington and two locations in Oregon (to assure consistency throughout the chain). Under these circumstances, the architect has a reasonable basis to determine where the benefit is received. Thus, the architect would attribute 2/3 (4 of 6 sites) of the resulting apportionable receipts to Washington and 1/3 (2 of 6 sites) to Oregon.

Example 4. Assume the same facts as example 3 except that the design will be used nation-wide by the franchisor for all its franchisee's locations. There is no reasonable means to determine at the time of the services how many locations will be built or in what states. Therefore, the benefit of the service is received in multiple states. For the same reasons, however, it is not possible to determine if the benefit of the service is primarily received in any one state. Therefore, the apportionable receipts must be attributed following the steps in subsection 301(b) through (f) of this rule.

(b) Services related to tangible personal property.

Example 5. An engineer is hired by Big Manufacturing to design a tool that will only be used in a plant located in Brewster, Washington. Big Manufacturing receives the benefit of the engineer's services in Washington.

Example 6. The same facts as in example 5, except the new tool will be used equally in plants located in Brewster and in Kapa'a, Hawai'i. The engineer has a reasonable basis to determine that Big Manufacturing will receive the benefit of the engineer's services in both states equally and engineer would attribute half the income to both states.

Example 7. A commission salesperson sells tangible personal property for Distributor. Distributor receives the benefit of the service where the tangible personal property will be delivered to the buyer. Thus, salesperson will attribute its commission income to the place of delivery of the tangible personal property sold.

Example 8. Training Company provides training to employees of customer. The training relates to how to operate a specific piece of equipment that is located in Washington. Under these circumstances, the benefit of the service is received in Washington, the location of the equipment.

(c) Services not related to real or tangible personal property and related to the customer's business..

Example 9. Law Firm is hired by Toy Manufacturer to defend a class action product liability lawsuit. Toy Manufacturer's business activity includes defending against product liability based on Toy Manufacturer's Widget. Toy Manufacturer's Widget is used equally throughout the United States and is only used in the United States. The use of the relative quantity of Widgets sold in each state is a reasonable method of proportionally assigning the benefit of the service. In this case, the benefit of Law Firm's services relate to the potential liability based on Widget's use. Because use in each state can be reasonably estimated based on relative populations of the states, Law Firm must attribute its income from the defense on that basis. However, if the use of Widgets is disproportionate when compared to population, then sales into each state may be reasonable.

Example 10. ABC is headquartered outside of Washington and provides retail services to customers in Washington, Oregon, and Idaho. When those customers fail to pay ABC for its services, ABC contracts with Debt Collector located outside of Washington to collect the debt. ABC pays Debt Collector a percentage of the amount collected on each debt. ABC is engaged in business in Washington and when Debt Collector obtains payment from debtors located in Washington, the activities of Debt Collector relate to that business. Therefore, the benefit of the service provided by Debt Collector is received by ABC in Washington. Similarly, when the Debt Collector obtains payments from debtors in Oregon or Idaho, the benefit of the service is received in those respective states.

Example 11. The same facts as Example 10, except Debt Collector is paid a fixed amount per month regardless of the total amount collected from debtors, and the debtors are equally located in Washington, Oregon, and Idaho and the amount of debt is relatively equal per debtor. The Debt Collector has the same success rate in all states. Debt Collector would be able to reasonably attribute one-third of the apportionable receipts to each state.

Example 12. The same facts as Example 11, except the debtors are in every state and no state has a majority of the debtors. The recovery rate and the number and size of delinquent account vary significantly by state. ABC receives the benefit of the service where the debtors are located. Therefore, Debt Collector shall attribute its receipts based on the relative collections in each state.

Example 13. Training Company provides training to employees of Customer. The training relates to ethical behavior of the employees both within the Customer's organization and with the customer's clients. If the training is done for staff of specific offices of the Customer, it would

relate to the Customer's business activities at that office. Therefore, the Customer receives the benefit of the service at that office and Training Company attributes the apportionable receipts to that state.

Example 14. Same facts as Example 13, however, if the training is provided for employees from several states and Training Company knows which states the employees work in, then Training Company can reasonably determine what percentage of its apportionable receipts that relate to the Customer's business in those states.

Example 15. Same facts as example 14, except the employees are from the states of Oregon, Idaho, and Pennsylvania and the training is provided in Washington. Although the service is provided in Washington, none of the benefit is received in Washington and therefore Training Company would attribute no apportionable receipts to Washington.

Example 16. Retailer contracts with Call Center to answer customer's questions about its products. Call Center has facilities in Iowa and Alabama. Retailer's customers are located throughout the United States. Whenever a customer calls Call Center, a record exists showing the area code of the phone making the call. Retailer receives the benefit of Call Center's services where its customer is when the services are provided. Due to the use of cellular phones and the mobility of phone numbers, the use of phone area codes to determine where the customer is located is not exact. However, the use of area codes to determine customer location is reasonable. Therefore, Call Center will attribute its apportionable receipts based on the percentage of calls from each state.

Example 17. Merlin's Potion Shop only makes sales at a single location in Vancouver, Washington. It purchases an advertisement in an Oregon newspaper. The advertisement relates to Merlin's Potion Shop's retailing activity. Merlin's Potion Shop receives the benefit of the advertising services when buyers make purchases of its products. The Oregon newspaper knows where Merlin's Potion Shop is located and should attribute the apportionable receipts to Washington.

Example 18. Taxpayer provides internet advertising services. Its customers include national retail chains, regional businesses, businesses with a single location, and businesses that operate solely over the Internet. Generally, the benefit of the advertising services is received where the customer's business activities occur. In the case of the sale of tangible property, this is where the customer delivers the property to the buyer.

Example 19. Management Company is the parent of Subsidiaries A, B, and C. Management Company provides general professional services (e.g., legal services) to A, B, and C. A, B, and C are multistate businesses. The fee charged A, B, and C for this service is Management Company's total actual costs multiplied by the gross income of each divided by the total income of all three. Because Management company's services relate to the general business of each A, B, and C, the income from this service is attributed to the corporate domicile of each subsidiary.

Example 20. Director serves on the board of directors of DEF, Inc. DEF, Inc. is commercially domiciled in State Z. DEF, Inc. is Director's customer. The Director's services do not relate to specific property or activities, but rather to the general management of DEF, Inc. It is impossible to reasonably determine the portion of the benefit received in each state DEF engages in business. However, the benefit of these services is primarily received at DEF's corporate domicile. Therefore, DEF, Inc. receives the benefit of Director's services in State Z.

(d) Other services provided to individuals not engaged in business or services unrelated to person's business activities.

Example 21. A Washington resident travels to California for a specialized medical procedure. The Washington resident receives the benefit of the physician's services in California because the Washington resident must be physically present.

Example 22. A Washington couple arranges with a Washington attorney to prepare a last will and testament for their daughter who lives in Los Angeles. The benefit of the attorney's services is received in California.

Example 23. A Washington couple requests a California accountant to prepare their joint federal income tax return. Because the couple does not have to be physically present for the accountant to perform services, the Washington couple receives the benefit of the accountant's services at their residence in Washington.

Example 24. An Arizona resident retains a Washington stock broker to handle its investments. The stock broker receives orders from the client and executes trades of securities on the New York stock exchange. Because the Arizona resident is not investing as part of a business; the activity does not relate to real or tangible personal property; and the client does not need to be physically present for the stock broker to perform its services, the client receives the benefit of the services in Arizona, the client's residence.

Example 25. Washington accountant prepares a couple's Arizona and Oregon state income tax returns as well as their federal income tax return. The receipts associated with the state income tax returns is attributed to those states and the receipts for the federal income tax return will be attributed to the couple's place of residence.

Example 26. Tour Operator provides cruises through the San Juan Islands and has a stop in Victoria, British Columbia. The tour lasts a total of 5 days; four days are spent in Washington and a single day in Victoria. Under these circumstances, it is reasonable to determine that Tour Operator's customers receive 80% of the benefit in Washington and 20% outside of Washington. Therefore, Tour Operator would attribute 80% of apportionable receipts to Washington.

Example 27. Investment Manager manages a mutual fund. Investment Manager receives a fee for managing the fund based on the value of the assets in the fund on particular days. Investment Manager knows or should know the identity of the investors in the fund and their mailing addresses. The fees received by Investment Manager (whether from the mutual fund or from individual investor's accounts) are for the services provided to the investors. Therefore, benefit of Investment Manager's services is received at the locations of the investors. Thus, the apportionable receipts of the Investment Manager must be attributed to where the investors are located.

303. Special rules related to extensions of credit performed by non-financial institutions.

For businesses that are not included in the definition of a financial institution under WAC 458-20-19404(3) and that provide services related to the extension of credit, the attribution of income from such activities is as follows:

- (a) Activities related to the extension of credit where the debt is secured by real property. Such activities include, but are not limited to, servicing loans, making loans subject to deeds of trust or mortgages (including any fees related to the loan), and buying and selling of loans. The apportionable receipts from these activities is attributed in the same manner as a financial institution would attribute the apportionable receipts under WAC 458-20-19404(4).
- (b) Activities related to the extension of credit where the debt is not secured by real property. Such activities include, but are not limited to, servicing loans, making loans (including any fees related to such loans), and buying and selling of loans. Apportionable

receipts from these activities are attributed in the same manner as a financial institution would attribute the income under WAC 458-20-19404(4).

(c) All other apportionable receipts of such businesses are attributed using this rule.

304. What does “unable to attribute” mean?

A taxpayer is “unable to attribute” apportionable receipts when the taxpayer has no reasonable means to acquire the information necessary to attribute the apportionable receipts. The fact that the information is maintained by an office of the taxpayer other than the office preparing the tax returns is not determinative. Further, the fact that a taxpayer chooses not to obtain information it is entitled to receive and from which it can attribute apportionable receipts is not determinative of whether the taxpayer is able or unable to attribute apportionable receipts. In determining whether a taxpayer has no reasonable means to acquire the information necessary to attribute apportionable receipts, cost and time may be considered.

Part 4. Receipts factor.

401. General. The receipts factor is a fraction that applies to all apportionable income for each calendar year. A separate receipts factor must be calculated for each apportionable activity engaged in by the taxpayer and subject to tax under a separate business and occupation tax classification.

402. Receipts Factor Calculation.

The receipts factor is Washington attributed apportionable receipts divided by world-wide apportionable receipts less throw out income. The receipts factor expressed algebraically is:

$$\text{(Receipts factor)} = \frac{\text{(Washington apportionable receipts)}}{\text{((World-wide apportionable receipts) – (Throw-out income))}}$$

(a) The numerator of the receipts factor is the total apportionable receipts attributable to this state during the calendar year from engaging in the apportionable activity.

(b) The denominator of the receipts factor is the total (world-wide) apportionable receipts of the taxpayer from engaging in the apportionable activity during the tax year, less throw out income.

(c) Throw-out income includes all apportionable receipts attributed to states where the taxpayer:

(i) is not taxable (see subsection (107)(g) of this rule); and

(ii) at least part of the services/activity of the taxpayer related to the throw-out income is performed in Washington.

403. Examples of the Application of Throw-out Rule.

Example 28. XYZ Corp. is a business, having apportionable receipts that is attributed using the criteria listed in subsections 301 above as follows: Washington \$500,000; Idaho \$200,000; Oregon \$100,000; and California \$300,000. XYZ Corp. is subject to Oregon and Idaho corporate income tax, but does not owe any California business activities taxes. The taxpayer does not have any throw-out income because Oregon and Idaho impose a business activities tax on XYZ’s activities and XYZ has substantial nexus with California because it satisfies the minimum nexus standards explained in WAC 458-20-19401. XYZ’s receipts factor is $500,000/1,100,000$ or 45.45%.

Example 29. Same facts as example 28 except: (a) XYZ Corp. has no property or personnel located in Idaho and performs some services related to the Idaho income in Washington; and (b) Idaho does not impose any tax on XYZ. The \$200,000 attributed to Idaho is excluded from the denominator because XYZ Corp. is not subject to actual Idaho business activities taxes; does not

have substantial nexus with Idaho under Washington standards; and at least part of the services are performed in Washington. Although California does not impose a business activities tax on XYZ Corp., XYZ Corp. does have substantial nexus with California using Washington thresholds (more than \$250,000 in receipts). Therefore, the California attributed apportionable receipts are not excluded from the denominator. The Oregon apportionable receipts remain in the denominator because XYZ Corp. is subject to Oregon corporate income taxes. The receipts factor is 500,000/900,000 or 55.56%.

Example 30. The same facts as Example 29 except XYZ Corp. performs no activities in Washington related to the \$200,000 attributed to Idaho. In this situation, the \$200,000 is not excluded from the denominator. The receipts factor is 500,000/1,100,000 or 45.45%.

Part 5 How to determine Washington taxable income.

501. General. Washington taxable income is determined by multiplying apportionable income by the receipts factor for each apportionable activity engaged in by the taxpayer. While the receipts factor is calculated without regard to deductions authorized under chapter 82.04 RCW, apportionable income is determined by reducing the apportionable receipts by amounts that are deductible under chapter 82.04 RCW regardless of where the deduction may be attributed.

Example 30 Calculating apportionable income. Corporation A received \$2,000,000 in apportionable receipts from its world-wide apportionable activities, including \$500,000 in world-wide bona fide initiation fees deductible under RCW 82.04.4282. Corporation A's apportionable income is \$1,500,000.

Example 31. PDQ has \$1,100,000 in apportionable receipts and is entitled to \$200,000 in world-wide tax deductions under Washington law against its apportionable receipts. PDQ's Receipts Factor of 0.45. PDQ will calculate its Washington taxable income as:

(Apportionable income) times Receipts Factor

(\$1,100,000- 200,000) times 0.45

\$900,000 (apportionable income) times 0.45 = \$405,000.

Part 6. Reporting instructions.

601. General. (a) Taxpayers required to use the apportionment method described in this rule may report their taxable income based on their apportionable income for the reporting period times the receipts factor for the most recent tax year for which the taxpayer has information.

(b) If a taxpayer does not calculate its taxable income using subsection 601(a), above, the taxpayer must use actual current tax year information. .

602. Reconciliation. Regardless of how a taxpayer reports its taxable income under (a) or (b) of subsection 601, when the taxpayer has the information from which to determine the receipts factor for an entire calendar year, it must file a reconciliation and either obtain a refund or pay the additional tax. In either event (refund or additional taxes due), interest will apply retroactively to the due date of each tax return. If the reconciliation is completed prior to October 31st of the following year, no penalties will apply to any additional tax that may be due.

Example 32: Assume that LMN is headquartered in Washington, reports B&O taxes on a quarterly basis, and its apportionable income is a constant \$300,000 per quarter. LMN's receipts factor after performing the reconciliation is as follows:

Year	Receipt factor	When Determined
Year 1	0.28	March of Year 2
Year 2	0.25	September of Year 3
Year 3	0.35	June of Year 4
Year 4	0.30	June of Year 5

The following table demonstrates how LMN should report its apportionable income for Years 3 and 4.

Tax return	Gross income	Receipt factor used	Taxable reported	Reconciliation amount
Year 3 Quarter 1	300,000	0.28 ¹	84,000	
Year 3 Quarter 2	300,000	0.28	84,000	
Year 3 Quarter 3	300,000	0.25 ²	75,000	
Year 3 Quarter 4	300,000	0.25	75,000	
Year 4 Quarter 1	300,000	0.25	75,000	
Year 4 Quarter 2	300,000	0.35 ³	105,000	
Year 3 reconciliation	1,200,000	0.35	420,000	102,000 ⁴
Year 4 Quarter 3	300,000	0.35	105,000	
Year 4 Quarter 4	300,000	0.35	105,000	
Year 4 reconciliation	1,200,000	0.30	360,000	(30,000) ⁵

¹ LMN will be using its year 1 receipts factor for the first 2 quarters of year 3 because it is the most recent year for which it has accurate numbers.

² LMN will change its receipts factor for the third quarter to year 2's actual receipts factor because it now has that information.

³ LMN will change its receipts factor for the third quarter to year 3's actual receipts factor because it now has that information.

⁴ LMN will file its reconciliation for Year 3. The taxable amount is \$420,000 less the previously reported taxable amount of \$318,000. This means LMN will owe taxes on \$102,000 plus interest on the underpaid taxes. However, no penalties will be imposed on the \$102,000 if the reconciliation is filed with the department no later than October 31st of Year 4.

⁵ LMN will file its reconciliation for Year 3. The taxable amount is \$360,000 less the previously reported taxable amount of \$390,000. This means LMN overpaid taxes by \$30,000. LMN will receive interest on the overpaid taxes.